

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

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R 261712Z NOV 76

FM AMCONSUL TORONTO

TO SECSTATE WASHDC 4562

INFO AMEMBASSY OTTAWA

ALL CONSULATES GENERAL IN CANADA VIA POUCH

UNCLAS TORONTO 2128

E.O. 11652: N/A

TAGS: EFIN, PGOV, CA

SUBJECT: ONTARIO MINI BUDGET

1. SUMMARY - ONTARIO TREASURER MCKEOUGH PRESENTED A MINI-BUDGET TO THE PROVINCIAL LEGISLATURE WHICH BLASTED BY OPPOSITION PARTIES AND LOCAL PRESS AS DO-NOTHING DOCUMENT ABUT SUPPORTED BY BUSINESS. MOST POSITIVE ELEMENT WAS MAKE PRIVATE SECTOR PRODUCTION MACHINERY PERMANENTLY EXEMPT FROM SEVEN PERCENT PROVINCIAL SALES TAX, WHICH MEASURE HAS BEEN IN EFFECT ON TEMPORARY BASIS. THIS CONSIDERED NECESSARY TO MAKE ONTARIO COMPETITIVE AS INVESTMENT LOCUS WITH NEIGHBORING STATE AND PROVINCES. TREASURER ALSO ASSESSED ANTI-INFLATION

PROGRAM AS SUCCESS AND STATED CONFIDENCE THAT PROGRAM CAN BE PHASED OUT ON SCHEDULE. END SUMMARY.

2. ONTARIO TREASURER DARCY MCKEOUGH ON NOVEMBER 23 PRESENTED TO PROVINCIAL LEGISLATURE "ONTARIO'S ECONOMIC STRATEGY FOR 1977", MORE COMMONLY TERMED A MINI-BUDGET. DOCUMENT INCLUDED:

A) PROPOSAL TO MAKE PERMANENT EXEMPTION OF PRIVATE SECTOR PRODUCTION MACHINERY AND EQUIPMENT FROM
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SEVEN PERCENT PROVINCIAL SALES TAX IN ORDER TO RETAIN

ONTARIO COMPETITIVE POSITION FOR INVESTMENT WITH
NEIGHBORING PROVINCES AND STATES. EXEMPTION ENACTED
ON TEMPORARY BASIS WAS TO EXPIRE DECEMBER 1976.

B) EVALUATION OF SUCCESS OF ANTI-INFLATION PROGRAM AND
CONFIDENCE THAT IT CAN BE TERMINATED AS SCHEDULED.

C) CONSIDERATION FOR EXTENSION OF FAST WRITE-OFF PROVISIONS
FOR MANUFACTURING SECTOR CONTINGENT UPON WHETHER OTTAWA
PERMITS CORPORATION TAX REVENUE GUARANTEE TO EXPIRE
DEC. 31 AND PROVINCE HAS TO ABSORB COSTS OF CURRENT
PROGRAM.

D) INTRODUCTION OF LEGISLATION TO PROVIDE INCREASED FOREIGN
TAX CREDIT FOR UNDER THE CORPORATION TAX ACT.

E) STATEMENT THAT NO INCREASE IN PROVINCIAL PERSONAL INCOME
TAX ON JAN. 1 AND RATE WILL REMAIN AT 30.5 PERCENT UNTIL
FINAL NEGOTIATIONS WITH OTTAWA ON "REDISTRIBUTION" OF
RESOURCES.

F) CONTINUED CONTROL OF GOVERNMENT SPENDING WITH 1976-77
BUDGET STILL ON TARGET AND SPENDING GROWTH RATE DOWN
FROM 24.6 PERCENT IN FY 1975-76 TO 11.5 PERCENT FY 1976-77
AND TARGET ESTABLISHED OF 9.6 PERCENT FOR FY 1977-78.

G) INCREASED TRANSFER PAYMENTS TO MUNICIPALITIES NEXT
FISCAL YEAR OF DOLS 330 MILLION.

H) GAVE EMPHASIS TO NEED TO IMPROVE PRODUCTIVITY AND
TO IMPORTANCE OF PROFITS.

I) ESTABLISHED COMMITTEE TO STUDY IDEA AND IMPACT OF
INFLATION ACCOUNTING.

J) STATED OPTIMISM BUT FORECAST A CLOUDED SITUATION FOR
1977 IN ONTARIO WITH A CONTINUED 50 PERCENT RISE IN REAL
OUTPUT, CONTINUED MODERATION OF PRICES AND POSSIBLE
IMPROVEMENT IN UNEMPLOYMENT RATE BASED ON NEW JOB
CREATION.

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3. OPPOSITION PARTIES ISSUED STRONG CRITICISM OF MINI-BUDGET
BASED MAINLY ON ITS MINIMAL EFFECT ON EMPLOYMENT AND SOCIAL
CONDITIONS. OPPOSITION NDP LEADER STEPHEN LEWIS CALLED THE
SALES TAX EXEMPTION AN UNPROVEN TECHNIQUE WHICH "SIMPLY
ADDS TO CORPORATE PROFITS WITHOUT CREATING JOBS." LIBERAL
LEADER STUART SMITH SAID THE TREASURER'S PRESENTATION SHOULD
HAVE BEEN TITLED "A LACK OF INDUSTRIAL STRATEGY FOR ONTARIO"

AND DECRIED THE LACK OF STIMULATION FOR HOUSING AND SMALL BUSINESS.

4. BUSINESS LEADERS SUPPORTED THE PROVINCIAL GOVERNMENT'S INDUSTRIAL STIMULATION DEVICE. CAM DAVIS, VICE PRESIDENT OF THE ONTARIO CHAMBER OF COMMERCE, PREDICTED THE SALES TAX EXEMPTION WILL CREATE NEW JOBS AND, WHILE RECOGNIZING THE TREASURER'S STATEMENT REPRESENTED NO NEW BREAKTHROUGH, SAID IT "WILL INCREASE BUSINESS CONFIDENCE IN FUTURE PROVINCIAL FISCAL POLICIES." PATRICK LAVELLE, PRESIDENT OF THE AUTO PARTS MANUFACTURERS, SAID THAT HIS INDUSTRY WILL BE ABLE TO REMAIN COMPETITIVE WITH US MANUFACTURERS BECAUSE OF THE TAX EXEMPTION AND MOREOVER THAT AT THIS TIME IT IS IMPORTANT "TO REMOVE ALL BARRIERS TO INVESTMENT IN THE DESIRE TO CREATE NEW JOBS AND TO ENCOURAGE AN ECONOMIC CLIMATE WHICH WILL KEEP ONTARIO'S MANUFACTURED GOODS COMPETITIVE WORLDWIDE."

5. PRESS COMMENTS GENERALLY ATTACKED THE MINI-BUDGET AS PASSIVE. THE TORONTO STAR'S LEAD EDITORIAL OF NOV. 23 "MCKEOUGH'S DO-NOTHING STRATEGY" DECREED THE "DEPRESSING AIR OF RESIGNATION" IN THE STATEMENT AND THE "TENDENCY OF FEDERAL AND PROVINCIAL GOVERNMENTS TO UNDERESTIMATE THE SERIOUSNESS OF THE RECESSION." THE STAR'S JONATHAN MANTHORPE WROTE IN HIS NO. 24 COLUMN THAT THE TREASURER NOT ONLY WANTED TO PROTECT ONTARIO IN THE "PRICE WAR" BETWEEN US STATES IN INDUSTRIAL DEVELOPMENT BUT WANTED TO DEFUSE SOME OF THE AREAS IN THE APRIL 1977 BUDGET BY EXPOSING THEM NOW AND RELIEVING SOME OF THE PRESSURE ON THE MINORITY GOVERNMENT EXPECTED AT BUDGET TIME. THE TABLOID TORONTO SUN'S COLUMNIST CLARE HOY UNDER THE HEADLINE "MUCH ADO ABOUT NOTHING, DARCY" TERMED THE STATEMENT "A YAWN" AND "AN ATTEMPT TO CON PEOPLE INTO BELIEVING THAT THE GOVERNMENT, YOURS AND MINE, HAS SOME PLAN, SOME IDEA WHERE IT'S HEADED." THE GLOBE & MAIL'S NORMAN WEBSTER SUPPORTED THE TREASURER'S STATEMENT AND THE NEED

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TO HELP INDUSTRIAL DEVELOPMENT BUT SAID THAT THE TREASURER "MANAGED" TO PAT HIMSELF ON THE BACK, PUT HIS NOSE TO THE GRINDSTONE, LEAD THE WAY TO BROAD SUNLIT UPLANDS AND FLIGHT A REARGUARD ACTION AGAINST THE OPPOSITION AT THE SAME TIME."

6. COPIES OF DOCUMENT BEING POUCHED DEPARTMENT, OTTAWA AND WINNIPEG.
DIGGINS

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